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STRENGTHENING OF THE COORDINATION OF HUMANITARIAN AND DISASTER RELIEF ASSISTANCE OF THE UNITED NATIONS, INCLUDING SPECIAL ECONOMIC ASSISTANCE: SPECIAL ECONOMIC ASSISTANCE TO INDIVIDUAL COUNTRIES OR REGIONS

Financing of the Palestinian Police Force

Report of the Secretary-General

I. BACKGROUND

1. On 13 September 1994, the first anniversary of the signing of the Declaration of Principles on Interim Self-Government Arrangements (A/48/486-S/26560, annex), the Chairman of the Executive Committee of the Palestine Liberation Organization, Mr. Yasser Arafat, the Minister for Foreign Affairs of Israel, Mr. Shimon Peres, and the Minister for Foreign Affairs of Norway, Mr. Bjorn Tore Godal, in his capacity as Chairman of the Ad Hoc Liaison Committee, issued a declaration in Oslo, which, inter alia, addressed the financial difficulties faced by the Palestinian Police Force in the Gaza Strip and Jericho Area. The declaration indicated that Mr. Arafat and Mr. Peres would together approach the Secretary-General to request that the United Nations should serve as the mechanism for immediately channelling existing funds to the Palestinian police.

2. Because of the urgency of the situation, the Secretary-General agreed that the United Nations would channel donor funds for disbursement of police salaries and start-up costs for a short interim period. He insisted, however, that any further United Nations involvement would have to be mandated by the General Assembly and that the United Nations should incur no financial obligations in the process. It would be up to the Ad Hoc Liaison Committee, on behalf of the donors, to mobilize the necessary resources to ensure payment of salaries and start-up costs to the Palestinian police.

3. On 26 September 1994, a Memorandum of Understanding was signed in Gaza by representatives of the Palestinian Police Force and the United Nations Relief

and Works Agency for Palestine Refugees in the Near East (UNRWA), and witnessed by the Special Coordinator in the Occupied Territories and a representative of the Ad Hoc Liaison Committee. That Memorandum, described in greater detail below, established a technical mechanism and procedures to be followed to effect payment of salaries and other recurrent costs of the Palestinian Police Force.

4. On 2 December 1994, the General Assembly approved resolution 49/21 B, entitled "Financing of the Palestinian Police Force", which, inter alia, requested the Secretary-General to designate a United Nations agency to disburse, with due attention to the need for thorough accounting, the voluntary contribution given by donors in the light of the activities of the Ad Hoc Liaison Committee for salaries and other start-up costs of the Palestinian Police Force, for a period ending not later than the end of March 1995.

5. In the light of the successful functioning of the disbursement mechanism established in accordance with the Memorandum of Understanding, the Secretary-General designated UNRWA as the agency responsible for implementation of the resolution. The data contained in the present report is drawn primarily from UNRWA, but also includes information from the Office of the Special Coordinator in the Occupied Territories (UNSCO), which has worked closely with UNRWA in this process.

II. THE TECHNICAL MECHANISM TO DISBURSE DONOR FUNDS TO THE PALESTINIAN POLICE FORCE

6. The Memorandum of Understanding took fully into account relevant provisions of the Agreement on the Gaza Strip and the Jericho Area signed by Israel and the Palestine Liberation Organization at Cairo on 4 May 1994 (A/49/180-S/1994/727, annex). It established procedures for identification of members of the Police Force whose salaries would be paid by donor funds, as well as for verification and authentication of the payroll sheets prepared by the Palestinian Police Force and submitted to UNRWA. The payroll sheets listed name, rank, unit in which the member of the Force was serving, identification number and gross salary (i.e. base salary, dependency and other allowances, cost-of-living adjustments and contributions for pension, health and social security funds).

7. A technical verification process was undertaken each month to confirm the accuracy of the payroll sheets and the financial information contained therein. Formal authentication of the payroll sheets then took place prior to disbursement of salaries at a monthly meeting held jointly by representatives of the Palestinian Police Force, UNRWA, UNSCO and the Ad Hoc Liaison Committee. Following that meeting, individual pay packets were issued in accordance with the authenticated payroll sheets. The packets were prepared by joint Palestinian Police Force-UNRWA teams and monitored by UNRWA. Members of the Force were paid their base salaries plus allowances in cash, mainly in United States dollars, which were brought to Gaza each month from Amman by a local bank. The pay packets were distributed by 12 to 18 joint Palestinian Police Force-UNRWA teams to individual members of the Police Force upon production of proof of their identity and against their signatures. From what UNRWA has observed and audited, the financial control mechanisms employed by the

Palestinian Police Force are credible and effective in preventing overpayment or duplicate payment.

8. In accordance with the Memorandum of Understanding, salary contributions for pension, health and social security funds of the Police Force were to be transferred to the Finance Ministry of the Palestinian Authority for credit to separate bank accounts maintained by the Force for those funds. Regarding other recurrent costs for expenses such as food, fuel, vehicle maintenance, office and other supplies, UNRWA was to audit expenditures that had been made by the Force during the previous month; donor funds would then be used to reimburse the Force.

III. DONOR CONTRIBUTIONS TO THE POLICE

9. From September 1994 through March 1995, seven donor countries and the European Union contributed funds to the Palestinian Police Force using the UNRWA mechanism: Denmark, the European Union, the Netherlands, Norway, Saudi Arabia and Sweden channelled funds directly through UNRWA, and the United Kingdom transferred funds to the Palestinian Authority, which in turn gave the funds to UNRWA for disbursement in accordance with the Memorandum of Understanding. In a slight departure from that practice, Japan stipulated that its contribution must be disbursed only to the Emergency/Civil Defence and Traffic Police Units of the Palestinian Police Force. Although the funds were channelled through the United Nations Development Programme (UNDP) as part of a larger Japanese package of assistance, it was agreed that the salaries would be disbursed through the UNRWA mechanism in accordance with the Memorandum of Understanding. A representative of UNDP participated in the process leading to the disbursement of Japanese funds.

10. The priority of the donors has been to cover the net salaries of 9,000 policemen, the force strength authorized by the Agreement on the Gaza Strip and Jericho Area. Where resources were available, salary contributions for health insurance, pension and social security funds have also been paid. Funds towards other recurrent costs (food, fuel, etc.) were only available for the months of December 1994 and January 1995. The Palestinian Authority understands that the United Nations operates only as a channel for voluntary contributions by donors and not as a donor to the Police Force. Neither UNRWA nor UNSCO has encountered expectations from the Palestinian Authority to advance or identify additional funds to cover shortfalls.

IV. FINANCING OF PALESTINIAN POLICE FORCE SALARIES FROM SEPTEMBER 1994 TO MARCH 1995

11. From September 1994 to March 1995, the total bill for net salaries (base salaries plus allowances) for 9,000 police amounted to approximately $30.2 million, of which $29.8 million was funded, leaving a shortfall of some $400,000. During the same period, salary deductions for pension, health and social security funds amounted to about $1.4 million, of which some $600,000 was funded, leaving a shortfall of about $800,000. Thus the funding shortfall for the total salaries bill for the period was about $1.2 million, as shown below.

Net salaries	Salary deductions	Total salary bill	Amount funded	Amount unfunded
		(United States dollars)		
30 161 335	1 397 468	31 558 803	30 398 609	1 160 194

12. With regard to other recurrent costs, the Palestinian Police Force has budgeted approximately $1.944 million per month. Although the Memorandum of Understanding includes procedures to cover those costs, the absence of sufficient donor contributions for the purpose in all but two months of the period under review required less involvement by UNRWA, which reviewed monthly expenditures by the Force only when funds were available to offset them. When the European Union provided $3 million towards those costs, UNRWA audited the Force's expenditures, finding that $1.9 million was spent by the Force in December 1994 and $2.161 million in January 1995.

13. Annex I to the present report provides a month-by-month breakdown of the payments made to the Palestinian Police Force, including the source of funds and the amount contributed by each donor.

V. COSTS TO THE UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST IN PROVIDING ASSISTANCE

14. From the outset of the effort to assist the Palestinian Police Force, UNRWA had conditioned its involvement in the payment exercise on the understanding that the Agency would incur no costs in providing its assistance. That position, which was reflected in the Memorandum of Understanding, has been appreciated fully by the donors and the Palestinian Authority. In practice, donors covered UNRWA costs in the following ways:

(a) UNRWA was requested to deduct its direct and indirect costs from the contribution earmarked for the police (European Union, Norway, Sweden);

(b) UNRWA was reimbursed for costs incurred in the payment exercise (United Kingdom of Great Britain and Northern Ireland);

(c) UNRWA was requested to subtract the Agency's standard 12 per cent of an earmarked contribution to cover programme support costs (Denmark, Netherlands);

(d) UNRWA retained the interest earned on a contribution during the period between its receipt of the donor funds and the expenditure of those funds on behalf of the Palestinian Police Force (Saudi Arabia).

15. Annex II to the report provides details of UNRWA costs and the funds that it received to cover those costs. UNRWA has recovered both its direct costs (such as staff travel, transportation, payment of overtime and communications)

and indirect costs (such as interest lost from having advanced funds against written pledges). The total direct and indirect costs incurred by UNRWA will amount to $134,000 as of the completion of payment of March 1995 salaries. The amount received by UNRWA either as reimbursement for costs incurred by the Agency, or in programme support costs or in earned interest will amount to about $521,000 during the same period. This unanticipated outcome results from the request of the Netherlands and Denmark that UNRWA subtract from their earmarked contributions the Agency's standard 12 per cent to cover programme support costs. In addition, UNRWA retained the interest earned on the Saudi Arabian contribution of $7.5 million between the date of transfer to the Agency's account and the date of the release of those funds to pay the police (a period of several weeks). For those three contributions, UNRWA charged no direct costs. UNRWA deducted its direct and indirect costs, as appropriate, from the contributions of the European Union, Norway and Sweden; the United Kingdom reimbursed UNRWA for the Agency's direct costs.

16. In order to cover a funding gap of about $95,000 in the March 1995 net salaries bill, UNRWA provided that amount from the programme support costs of $113,000 on the contribution from Denmark.

VI. OBSERVATIONS

17. For the past seven months, UNRWA, together with UNSCO and more recently UNDP, has worked with the Palestinian Authority and donors in establishing an effective temporary mechanism for disbursing voluntary contributions for salaries and other start-up costs of the Palestinian Police Force. Close cooperation between the relevant actors has been an important factor in ensuring the success of the mechanism. Equally crucial, however, has been the timely disbursement of donor funds pledged for the purpose.

18. The information contained in annex I shows that there is a shortfall in each category of payment and, at the time of the present report, the United Nations has no information about availability of donor funds for police salaries for the months ahead. The Secretary-General takes this opportunity to remind the Ad Hoc Liaison Committee of its obligations in this regard. In designating UNRWA to implement paragraph 1 of resolution 49/21 B, the Secretary-General received assurances from all concerned that that responsibility would be for an interim period and that the United Nations would incur no expenses. Thus far the mechanism has worked to the satisfaction of the Palestinian Authority, the Palestinian Police Force and the donors. Although it is not in a position to contribute funds, the United Nations will continue to make every effort to facilitate the process.

ANNEX I

Financial report on the payment of salaries and other running costs to the Palestinian Police Force for the period from September 1994 to March 1995

(In United States dollars)

Year/month	Donor	Amount of contribution	Net salaries for 9,000 police	Salary deductions a/	Other running costs b/	Remarks
1994						
September	UK	3 598 700	3 598 700	(186 755)	Not applicable	Only net salaries were paid.
October	UK	1 074 187				1. Only net salaries were paid.
	Norway	2 923 655			Not applicable	2. The Norwegian contribution is net of UNRWA costs and crown agents fees (total contribution $3 million).
	Sweden	227 701				3. Total Swedish contribution $1,074,516; $227,701 was advanced; balance used to reimburse the PPF for part of the November salaries bill.
	Total	4 225 543	4 225 543	(173 856)		
November	Netherlands	3 086 735			Not applicable	1. Net salaries were not fully funded. $387 579 remained unfunded against the net salaries total. Salary deductions were not covered.
	Sweden	844 964				2. The Netherlands' contribution is net of programme support costs (12 per cent) amounting to $370 408.
	Total	3 931 699	4 319 278	(177 713)		3. The Swedish contribution is net of UNRWA costs.
December	European Union	6 086 691	4 453 951	173 595	1 459 145	The European Union contribution of ECU 5 million was used to pay net salaries and salary deductions. The balance of the contribution ($1,459,145 after making provision for UNRWA costs) was transferred to the PPF against other running costs in agreement with EU.

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Year/month	Donor	Amount of contribution	Net salaries for 9,000 police	Salary deductions a/	Other running costs b/	Remarks
1995						
January	European Union	6 215 711	4 449 192	224 504	1 542 015	The EU contribution of ECU 5 million was used to pay net salaries and salary deductions. The balance of the contribution ($1,542,015 after making provision for UNRWA costs) was transferred to the PPF against other running costs, in agreement with EU.
February	Saudi Arabia	4 709 282	4 482 528	226 754	Not applicable	The total Saudi contribution is $7.5 million. $4.7 million was used to pay the net salaries and salary deductions for February 1995. The remaining balance of $2,790,718 will be used for payment of salaries in March 1995.
March	Saudi Arabia	2 790 718				1. $94,794, representing part of the programme support costs received on the Danish contribution, was used to fund the shortage in March 1995 salaries.
	Denmark	1 040 224				2. The Japanese contribution has been paid through UNDP using the UNRWA mechanism.
	Japan	719 875	4 632 143	(234 291)	Not applicable	3. An amount of $81,326 of uncollected salaries from September 1994 will be used for payment of salaries in March 1995.
	Total	4 550 817				
	Grand total	33 318 443	30 161 335	1 397 468		
	Funded	33 318 443	29 773 756	624 853	3 001 160	
	Unfunded		387 579	772 615		Total shortfall in funding of salaries $1,160,194.

a/ Salary deductions comprise pension, health insurance and social security funds and are paid directly to designated accounts of the Palestinian Police Force. Figures in brackets ( ) indicate amounts not covered by contributions and therefore unfunded.

b/ Other running costs covered by donor funds only in December 1994 and January 1995.

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ANNEX II

Expenses incurred by the United Nations Relief and Works Agency during the payment of Palestinian Police Force salaries and other running costs for the period from September 1994 to March 1995

(In United States dollars)

Year/month	UNRWA expenses	Amount received by UNRWA	Remarks
1994			
September	11 000	11 000	Received from the UK.
October	48 965	43 785	$2,220 received from the UK. The $41,565 deducted from the Norwegian contribution is in respect of lost interest as a result of funds being advanced against the Norwegian pledge. $5,180 still owed by Norway.
November	7 400	372 258	$1,850 received from the Government of Sweden. $370,408 programme support costs received on the Netherlands' contribution in agreement with that country.
December	15 786	15 786	Deducted from the EU contribution.
1995			
January	21 232	21 232	Deducted from the EU contribution.
February	15 000	38 000	Interest earned on the Saudi Arabian contribution.
March	15 000	18 658	Programme support costs received on the Danish contribution in agreement with that country, amounting to $113,452. $94,794 of this amount was used to fund the shortage of salaries in March 1995.
Total	134 383	520 719	